

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

1. *Flanigan* 6879
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ACTION
February 25, 1970

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MEMORANDUM FOR THE PRESIDENT

FROM: Henry A. Kissinger
Peter M. Flanigan *PMF*
SUBJECT: Increased Iranian Oil Production Through Shipments
to Cuba

*Flanigan - Tell them we'll
help us on this &
should reduce the oil import
This is an order*
You asked Peter Flanigan, in the presence of the Shah, to make every effort to close the gap between projected Iranian oil sales in 1970 and Iranian financial needs under its development program. The gap is \$155 million.

Despite intensive conversations with US members of the Iranian Oil Consortium, Mr. Flanigan now sees no prospect of persuading the Consortium to increase its Iranian oil liftings in the coming year. The Iranians have also been told that they should expect no help in 1970 from the report of the Task Force on Oil Imports.

However, the Vice Chairman of the state-owned National Iranian Oil Company (NIOC) has approached Mr. Flanigan with the following story. Norwegian agents have supposedly approached Iran about buying Iranian oil to ship to Cuba as part of the USSR's commitment to Cuba. (The Norwegians, in the past, have been shipping 5 - 8 million tons of Soviet oil to Cuba, partly to be used in Cuba and partly to be sold elsewhere in the Caribbean area.) The USSR is now apparently short of oil for export and has directed the Norwegians to buy in the Middle East, for shipment to Cuba. The Norwegians would prefer to buy from Iran, but have made clear they will buy from Iraq if Iran will not sell. That would help the Iraqis find a market for oil from fields they are developing with Soviet help, independent of the Iraq Petroleum Company which is controlled by Western companies.

Against that background, the Iranian question is: Given US attitudes toward trade with Cuba, what would be the US position on such a sale?

The first issue raised by this approach is its veracity. CIA has no information to substantiate the statement that Norwegians have in the past been involved in shipping Soviet oil to Cuba or that Soviet oil has been sold elsewhere in the Caribbean. According to CIA, Soviet oil shipments

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to Cuba have always been handled directly by the USSR and almost entirely in Soviet tankers. Also, Cuban consumption is only 4 million tons, with another million in petroleum products. So the facts do not ring true.

But if the proposal is legitimate, the case for telling the Iranians we would not object includes these points:

1. You have promised to help the Shah if possible to increase his oil revenues. Despite Mr. Flanigan's discussions with US members of the oil consortium, there is no indication whatsoever that the Consortium will increase its liftings from Iran this year. Since our review of oil import policy will not help Iran, the only substantial way we can now see to help Iran increase its revenues is by acquiescing in this sale to the Norwegians, knowing that the destination would be Cuba.

2. According to the Iranian argument, refusal would result in an Iraqi sale. Oil would not be denied to Cuba. An Iraqi enterprise designed with Soviet help to undercut Western producers would be assisted. Instead of \$100 million which Iran would spend in the US, Iraq would gain revenue to be spent elsewhere.

The core of the case against telling the Iranians we would not object is two-fold -- it would erode the credibility and effectiveness of our economic denial policy against Cuba, and it would be subject to interpretation as a softening of the US attitude toward Cuba -- or at least as indicative of a disposition to soften our policy.

Both of these judgments are based on the almost certain circumstance that it would become known that we acquiesced in the arrangement. Private oil intelligence is extremely sophisticated and would soon learn about the deal. Moreover, the Soviets would certainly know and are likely to draw conclusions about our approach to Cuban policy, or at least about our priorities.

Our economic denial policy is intended to isolate Cuba from the Western world, because of its conduct in stimulating subversion; hamper its economic growth, and thus reduce its capacity to export revolution; and increase the USSR's burden, by keeping Cuba dependent on Soviet aid and supply. This policy is also responsive to OAS decisions to sever all commercial ties with Cuba.

We carry out this policy by a complete interruption of our own commercial and financial transactions; control over US-owned subsidiaries abroad through the Cuban Assets Control legislation; and use of moral suasion

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to convince non-Bloc industrialized countries to limit their trade with Cuba. The last is most difficult to accomplish, and it has been increasingly hard to convince European countries and Canada not to trade with Cuba. We are, however, committed to try, and you also pledged in your campaign speeches to redouble our efforts to persuade our allies not to do so.

In this case, it is not a question of the oil itself. Cuba will get the oil, whatever we do. The Soviets will pay in either case. The point is what our acquiescence will be taken to signify. A policy of moral suasion stands or falls on how firmly we hold to it and how much we are believed. Permitting this arrangement would put the credibility of our policy in doubt. Moreover, if it should become known publicly, we would have to enforce against Iran the legislative prohibition on PL 480 aid to countries assisting Cuba.

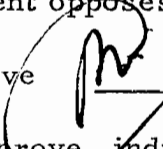
Given the current spate of assertions coming out of Latin America, and being recirculated by Pravda out of Moscow, that perhaps Cuba should be reintegrated economically into the inter-American system, knowledge of the Iranian arrangement would be taken to be an indication of US willingness to soften our stand on Cuba. This belief could in turn stimulate initiatives for a rapprochement.

The difficult choice posed here is: In terms of our desire to help increase Iran's income for its well-executed development program, we should acquiesce in this Iranian sale if it proves a realistic proposal. In terms of our maintaining the credibility of the present policy line on Cuba, however, we should not.

At best, however, we could give Iran our tacit approval with the clear understanding that we would have to cut off their PL 480 when the deal became known to us from other sources, as it surely would. Although the PL 480 is not that important substantively, it is dubious that Iran would want to pursue the deal against our expressed interests. There does therefore not seem to be much in it.

RECOMMENDATION:

That you authorize Peter Flanigan to inform Mr. Fallah that the US Government opposes the proposed oil sale to Norway.

Approve 

Disapprove, indicate that we will not oppose the arrangements for Iran to sell oil to Norway, but that we would have to carry out the relevant portions of US law should it become known that the oil is destined for Cuba.

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